

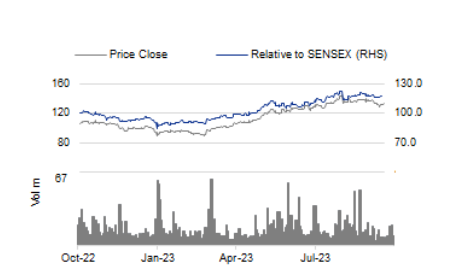
India

ADD (no change)

Consensus ratings*: Buy 23 Hold 3 Sell 2	
Current price:	Rs133
Target price: ▲	Rs170
Previous target:	Rs140
Up/downside:	27.8%
InCred Research / Consensus:	13.2%
Reuters:	BAJE.NS
Bloomberg:	BHE IN
Market cap:	US\$11,699m Rs974,028m
Average daily turnover:	US\$24.1m Rs2004.5m
Current shares o/s:	7,309.8m
Free float:	48.9%
*Source: Bloomberg	

Key changes in this note

- Roll forward target price to Sep 2025F EPS.
- Introduce FY26 financials.



Price performance	1M	3M	12M
Absolute (%)	(3.7)	2.1	22.8
Relative (%)	(0.7)	6.3	17.5

Major shareholders	% held
Promoter	51.1
Kotak Mutual Fund	3.2
HDFC Mutual Fund	2.7

Analyst(s)

Dipen VAKIL
T (91) 22 4161 1551
E dipen.vakil@incredcapital.com

Bharat Electronics Ltd

Consistent efforts; consistent results

- 2Q sales (Rs40bn)/ EBITDA (Rs10bn) were flat/up by 17% yoy, respectively. Maintains guidance of ~17% revenue growth with a 21-23% EBITDA margin.
- The order book stands at Rs687bn (3.9x TTM sales). A surge in large orders likely in FY24F-25F. Traction in exports & non-defence portfolio to aid growth.
- Reiterate ADD rating with a higher target price of Rs170 (Rs140 earlier).

2QFY23 results flat yoy; better product mix improves EBITDA margin

Bharat Electronics (BEL) reported muted sales growth at Rs40bn (flat yoy) for 2QFY23, missing InCred/ Bloomberg consensus estimates by ~12%. The results were slightly impacted due to some disturbances in Karnataka, which impacted BEL's dispatches. The impact is estimated to be ~Rs4bn, which will be mitigated in 3QFY24F. EBITDA stood at Rs10bn (up 17.4% yoy), in line with our estimate and 8% above Bloomberg consensus estimate. BEL showcased strong EBITDA growth due to a better product mix leading to a significant improvement in margins to 25.2% (up 346bp yoy).

Order book position provides strong revenue outlook

As of end-Sep 2023, BEL's order book stood at Rs687bn, approximately 3.9x its trailing 12-month (TTM) sales. BEL witnessed order bookings worth ~Rs154bn in 1HFY24. BEL anticipates robust order booking of more than Rs200bn in FY24F. Significant orders are expected in the pipeline in the near term, which include fuses (Rs45bn), next-generation offshore patrol vessel (NGOPV) from Goa Shipyard and GRSE (~Rs25bn), Shakti (EW system for ships, ~Rs10-20bn), and BMP Tank upgrade – Rs30bn. BEL aims to maintain a 3x order book-to-sales ratio, ensuring a steady stream of revenue in the coming years.

Management projects 17% topline growth for FY24F

BEL's management maintains its guidance and projects a topline growth of around 17% for FY24F, driven by products and platform delivery timelines. The company expects its EBITDA margin in the range of 21%-23% for FY24F. As per BEL, export revenue is likely to touch US\$90-100m in FY24F.

Reiterate ADD rating with a higher target price of Rs170

We believe the strong order backlog, and the traction in exports & non-defence portfolio will drive near-term sales while large orders in the pipeline will also aid medium-term growth, with operating leverage supporting margins. We maintain our estimates and introduce FY26 financials. We have retained our ADD rating on BEL with a higher target price of Rs170 (Rs140 earlier) as we roll forward based on a P/E of 27x Sep 2025F EPS vs. 25x earlier. Lower-than-estimated order wins and margins are key downside risks.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	150,437	173,334	203,436	238,990	282,009
Operating EBITDA (Rsm)	33,091	40,476	46,729	57,247	70,232
Net Profit (Rsm)	23,487	30,067	34,113	41,783	50,695
Core EPS (Rs)	3.2	4.1	4.7	5.7	6.9
Core EPS Growth	13.7%	28.0%	13.5%	22.5%	21.3%
FD Core P/E (x)	41.47	32.40	28.55	23.31	19.21
DPS (Rs)	1.4	1.7	1.9	2.4	2.9
Dividend Yield	1.05%	1.28%	1.45%	1.77%	2.15%
EV/EBITDA (x)	27.17	22.09	19.92	16.16	12.91
P/FCFE (x)	(138.06)	25.23	(42.89)	42.84	24.69
Net Gearing	(62.6%)	(59.0%)	(27.8%)	(27.0%)	(32.0%)
P/BV (x)	8.13	7.17	6.25	5.40	4.64
ROE	20.6%	23.5%	23.4%	24.9%	26.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Consistent efforts, consistent results

Management conference-call highlights

- 1) BEL's 2QFY24 results were slightly impacted by the disturbances in Karnataka leading to an estimated ~Rs4bn impact, which will carry over to 3QFY24F. The EBITDA margin in 2QFY24 was boosted due to a better product mix.
- 2) **Guidance:** Maintains revenue guidance for FY24F, with a revenue growth target of 15%-17% and EBITDA margin of 21%-23%. Order inflow seen at Rs200bn in FY24F.
- 3) **Revenue mix:** In 2QFY24, BEL's revenue mix comprised 71% from the defence segment and 29% from the non-defence segment. The revenue mix is expected to remain defence sector-dominated for at least the next two-to-three years, with the defence segment revenue growing faster than the non-defence segment. BEL stated that it has executed almost all orders for Electronic Voting Machines (EVMs) and Voter Verifiable Paper Audit Trail (VVPAT) and the contribution to revenue from EVM/ VVPAT business in 1HFY24 was ~Rs11bn. We believe the overall margins will normalize in 2HFY24F.
- 4) **Order book and its execution:** The order book stands at Rs687bn, with an execution time of approximately 3-3.5 years. Notable orders include LRSAM (Rs70bn), Akash Prime (Rs37bn), battlefield surveillance system (~Rs20bn) Himshakti, and MPR Arudhra.
- 5) **Order pipeline:** Upcoming orders include fuses (Rs45bn), next-generation offshore patrol vessel (NGOPV) from Goa Shipyard and Garden Reach Ship Building or GRSE (~Rs25bn), Shakti (EW system for ships, ~Rs10-20bn), and BMP Tank upgrade – Rs30bn. BEL aims to maintain a 3x order book-to-sales ratio, ensuring a steady stream of revenue in the coming years.
Medium-term growth: In the medium term, the growth momentum will be maintained through traditional core products, such as C4I Systems, missile systems (QRSAM or LRSAM), radar systems, radar upgrades, tank electronics, electro-optic systems, and upgrade programs for tanks and BMPs.
- 6) **New products development:** (i) **Indigenous Air Traffic Management System (ATMS):** Opportunity for supplying ATMS to C & D category mid-size airports, potentially around 40 airports with a total opportunity size of Rs8-9bn. (ii) **Railways:** BEL has developed a number of innovative technologies, including the automatic train supervision system, the computer-based train control (CBTC) system, the super SCADA system, and the indigenous platform screen door (PSD). BEL is the only OEM in India offering PSD technology.
- 7) **Capital expenditure:** BEL incurred a capex of ~Rs2.5bn in 1HFY24. The company plans to allocate Rs7-8bn towards capital expenditure in FY24F. The company aims to expand its capacity by focusing on the expansion of existing factories and the construction of new ones. These additional capacities are expected to be commissioned within the next two-to-three years, further strengthening BEL's manufacturing capability.
- 8) **Israel-Hamas war impact:** Currently, the war seems to be of a very short duration; its impact may become evident after one or two months. BEL's partners in Israel are confident of meeting their commitments by the end of FY24F (mainly for LRSAM).

Figure 1: Standalone quarterly analysis

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy chg (%)	1QFY24	qoq chg (%)
Total Revenue	39,933	39,458	1.2%	35,108	13.7%
Less:					
Net Raw Materials Consumed	20,452	22,383	(8.6%)	19,844	3.1%
Other Expenses	3,504	2,563	36.7%	2,383	47.0%
Personnel	5,934	5,955	(0.3%)	6,237	(4.9%)
Total Expenditure	29,890	30,901	(3.3%)	28,464	5.0%
EBITDA	10,044	8,558	17.4%	6,644	51.2%
Less: Depreciation	1,004	1,042	(3.6%)	1,013	(0.8%)
EBIT	9,039	7,516	20.3%	5,632	60.5%
Less: Interest Paid	15	17	(13.2%)	11	(101.2%)
Non-operating Income	1,705	750	127.3%	1,417	20.4%
Profit Before Tax	10,729	8,249	30.1%	7,038	52.5%
Less: Total Tax	2,606	2,138	21.9%	1,729	50.7%
Profit After Tax	8,123	6,111	32.9%	5,308	53.0%
Reported EPS (Rs.)	1.11	0.84	32.9%	0.73	53.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margin Analysis	2QFY24	2QFY23	yoy bp chg	1QFY24	qoq bp chg
Raw Material Costs as a % of Total Revenue	51.2%	56.7%	-551	56.5%	-531
EBITDA Margin	25.2%	21.7%	346	18.9%	623
PAT Margin	20.3%	15.5%	486	15.1%	522
Effective Tax Rate (%)	24.3%	25.9%	-163	24.6%	-28

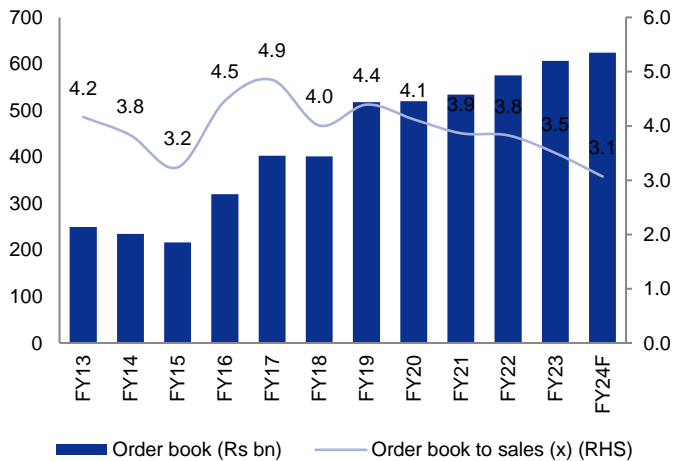
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly performance vs. estimates

(Rs bn)	Actuals	InCred est.	Difference (%)	Bloomberg est.	Difference (%)
Revenue	39.9	45.8	(12.8)	45.2	(11.6)
EBITDA	10.0	9.8	2.1	9.3	8.2
EBITDA Margin (%)	25.2	21.5		20.6	
Adj. PAT	8.1	7.2	13.3	6.9	17.4

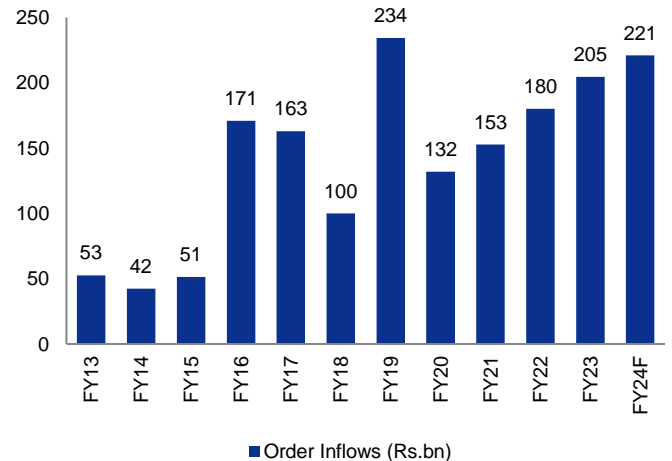
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Order book-to-sales ratio of 3.9x in 2QFY24 provides revenue visibility



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings revision summary

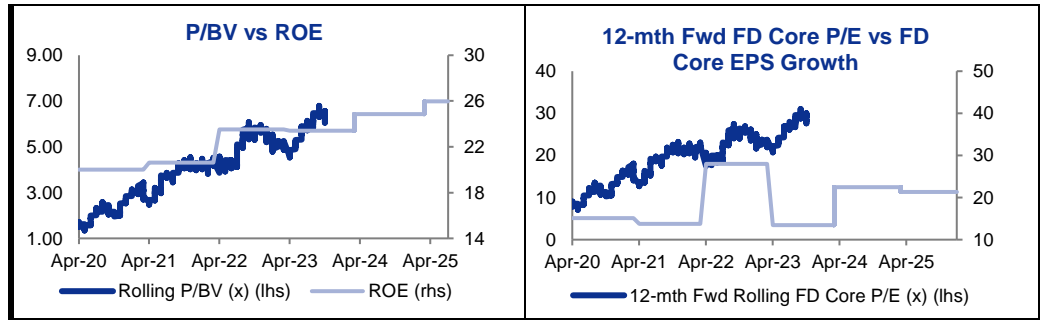
(Rs m)	Old estimates		New estimates			Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY26F	FY24F	FY25F
Revenue	2,07,108	2,41,804	2,07,108	2,43,304	2,87,098	0.0%	0.6%
EBITDA	46,729	56,729	46,729	57,247	70,232	0.0%	0.9%
Core PAT	34,113	41,390	34,113	41,783	50,695	0.0%	1.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: P/E ratio slightly above +1 SD of three-year average



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	153,138	176,462	207,108	243,304	287,098
Gross Profit	64,113	78,374	89,056	104,621	123,452
Operating EBITDA	33,091	40,476	46,729	57,247	70,232
Depreciation And Amortisation	(3,802)	(4,079)	(4,651)	(5,287)	(5,881)
Operating EBIT	29,289	36,397	42,078	51,960	64,351
Financial Income/(Expense)	(49)	(148)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,336	3,600	3,134	3,417	2,837
Profit Before Tax (pre-EI)	31,576	39,849	45,212	55,377	67,188
Exceptional Items					
Pre-tax Profit	31,576	39,849	45,212	55,377	67,188
Taxation	(8,089)	(9,782)	(11,098)	(13,594)	(16,493)
Exceptional Income - post-tax					
Profit After Tax	23,487	30,067	34,113	41,783	50,695
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,487	30,067	34,113	41,783	50,695
Recurring Net Profit	23,487	30,067	34,113	41,783	50,695
Fully Diluted Recurring Net Profit	23,487	30,067	34,113	41,783	50,695

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	33,091	40,476	46,729	57,247	70,232
Cash Flow from Invt. & Assoc.	(1,513)	(627)	(1,517)	(1,870)	(3,044)
Change In Working Capital	15,498	(21,179)	(53,472)	(17,334)	(10,123)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	3,802	4,079	4,651	5,287	5,881
Other Operating Cashflow	(1,254)	(2,640)	(3,134)	(3,417)	(2,837)
Net Interest (Paid)/Received	(49)	(148)			
Tax Paid	(8,024)	(9,150)	(11,098)	(13,594)	(16,493)
Cashflow From Operations	41,550	10,811	(17,841)	26,320	43,616
Capex					
Disposals Of FAs/subsidiaries	74	17			
Acq. Of Subsidiaries/Investments	(7,765)	3,260	(8,000)	(7,000)	(7,000)
Other Investing Cashflow	(40,914)	24,522	3,134	3,417	2,837
Cash Flow From Investing	(48,606)	27,799	(4,866)	(3,583)	(4,163)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,233)	(12,424)	(14,099)	(17,269)	(20,953)
Preferred Dividends					
Other Financing Cashflow	(492)	(617)			
Cash Flow From Financing	(10,725)	(13,041)	(14,099)	(17,269)	(20,953)
Total Cash Generated	(17,780)	25,569	(36,807)	5,467	18,500
Free Cashflow To Equity	(7,055)	38,610	(22,708)	22,737	39,453
Free Cashflow To Firm	(7,007)	38,757	(22,708)	22,737	39,453

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	74,991	80,090	43,283	48,750	67,250
Total Debtors	61,034	70,220	82,415	96,819	114,246
Inventories	55,669	64,121	75,256	88,409	104,322
Total Other Current Assets	87,229	89,302	102,232	120,100	141,717
Total Current Assets	278,924	303,732	303,187	354,077	427,535
Fixed Assets	33,826	35,135	38,484	40,197	41,316
Total Investments	15,542	6,644	6,644	6,644	6,644
Intangible Assets					
Total Other Non-Current Assets	6,207	5,034	5,034	5,034	5,034
Total Non-current Assets	55,576	46,813	50,162	51,875	52,994
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	178,541	181,374	158,372	179,620	216,179
Other Current Liabilities	36,116	33,351	39,143	45,983	54,260
Total Current Liabilities	214,657	214,725	197,514	225,604	270,439
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	214,657	214,725	197,514	225,604	270,439
Shareholders Equity	119,843	135,820	155,834	180,348	210,090
Minority Interests					
Total Equity	119,843	135,820	155,834	180,348	210,090

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	8.9%	15.2%	17.4%	17.5%	18.0%
Operating EBITDA Growth	4.0%	22.3%	15.4%	22.5%	22.7%
Operating EBITDA Margin	22.0%	23.4%	23.0%	24.0%	24.9%
Net Cash Per Share (Rs)	10.26	10.96	5.92	6.67	9.20
BVPS (Rs)	16.39	18.58	21.32	24.67	28.74
Gross Interest Cover	603.89	246.09			
Effective Tax Rate	25.6%	24.5%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	43.6%	41.3%	41.3%	41.3%	41.3%
Accounts Receivables Days	150.81	135.75	134.50	134.44	134.17
Inventory Days	215.69	222.88	215.47	215.37	214.94
Accounts Payables Days	(136.59)	(124.40)	(111.56)	(111.52)	(111.29)
ROIC (%)	99.9%	74.1%	39.7%	41.6%	47.2%
ROCE (%)	25.7%	28.5%	28.9%	30.9%	33.0%
Return On Average Assets	7.5%	8.8%	9.7%	11.0%	11.4%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Order backlog (Rs m)	575,700	606,900	628,451	704,443	853,490
Order inflows (Rs m)	180,000	204,534	224,987	314,982	409,477
Book to bill ratio (%)	28	30	34	38	37

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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